

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION
PUBLIC DISCLOSURE

Van Horn State Bank

Name of Institution
Van Horn

City
Texas

State
Peggy L. Atcher

Examiner-in-Charge

100 East Broadway

Street
Culberson

County
79855

Zip Code

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Van Horn State Bank, Van Horn, Texas**, prepared by the **Federal Reserve Bank of Dallas**, the institution's supervisory agency, as of October 7, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: This institution is rated **Outstanding**.

The major factor in the bank's outstanding rating was the distribution of loans throughout the assessment area by borrower income and business revenue, which was further strengthened by an evidentiary willingness of the bank to make small dollar loans. Analysis of the consumer loan sample revealed that 74% of the loans were made to low- and moderate-income borrowers and 57% of the loans were made for amounts of \$2,500 or less. Also, a sample review of motor vehicle loans found that 83% were secured by cars or trucks that were aged 6 years or older, further evidencing the bank's willingness and outstanding efforts to meet the credit needs of the community. Analysis of the commercial loan sample determined that 58% of the loans were made to businesses with gross revenues of \$1 million or less and 79% of the loans were made for amounts of \$50,000 or less.

The following table indicates the performance level of Van Horn State Bank, Van Horn, Texas, with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	VAN HORN STATE BANK VAN HORN, TEXAS PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

Van Horn State Bank, Van Horn, Texas (VHSB) is a wholly-owned subsidiary of Western Bankshares, Inc., Van Horn, Texas. The bank's only office is located at 103 East Broadway and offers full deposit and banking services, including a recently installed, 24-hour ATM and convenient and extended banking hours. At the last CRA examination conducted as of October 17, 1994, VHSB received an outstanding rating.

As of June 30, 1996, the bank reported total assets of \$18.1 million. Net loans and leases represented 70.7% of total deposits. As indicated in the following chart, the bank's primary lending focus continues to be in commercial and industrial-related loans. Commercial and industrial and commercial real estate loans comprised 53.5% of the bank's loan portfolio as of June 30, 1996, in comparison to 53.3% as of June 30, 1994.

LOAN TYPE	DOLLAR AMOUNT (THOUSANDS)	PERCENT OF TOTAL LOANS
Real Estate:		
Construction	\$ 303	2.65
Residential 1-4	2,050	17.95
Commercial	1,598	13.99
Agricultural	335	2.93
Total Real Estate	4,286	37.52
Consumer:		
All other	1,992	17.44
Commercial and Industrial	4,514	39.52
Agricultural	225	1.97
State and Political	361	3.16
Other	44	0.39
Total	\$11,422	100.00%

Overall, the bank's ability to meet community credit needs has not been hampered by its capacity to lend, the capacity of other similarly-situated institutions to lend in the assessment area, demographic or economic factors present in the assessment area, or the lending opportunities available in the institution's assessment area. Since the last examination, VHSB's gross loans have grown by \$2.4 million or 13% on an annualized-basis. The majority of growth has been in commercial and consumer loans, which accounted for \$1.3 million or 54.2% and \$681 thousand or 29%, respectively, of the increase in gross loans. According to President Mike Hensley, the bank has become a more active Small Business Administration (SBA) lender, with approximately 50% of the commercial loan portfolio being comprised of SBA loans with an average outstanding loan of \$350 thousand.

President Mike Hensley indicated that the three counties' economies comprising the bank's assessment area are interrelated, but are somewhat distinct in terms of their current economic state and development. Jeff Davis County is an economically strong and diversified economy with cattle ranching, tourism, an observatory, and a well-established and significant deposit base. Hudspeth County is an economically depressed area, which has addressed a severe lack of economic diversification and development in the past few years by contracting for separate sludge/waste treatment and low-level nuclear waste repository facilities. Culberson County is considered stable, but has experienced little growth in the past two years due to a lack of economic diversification and commercial and residential real estate development. Two major fiber-optic, two state highway, and one airport runway construction projects, and several new tourism/hotel-related businesses have offset the loss of approximately 10 small businesses in the past year. Also, two of the three major employers, the local government/school system and tourism, have been fairly stable. However, the agricultural sector comprising approximately 13% of the local economy has suffered in recent years from drought conditions.

DESCRIPTION OF ASSESSMENT AREA

The bank has identified its assessment area as consisting of Culberson, Hudspeth, and Jeff Davis Counties, which lie in the southwest portion of the state of Texas just to the north of international border with Mexico. The bank's headquarters reside in Van Horn, Texas, which serves as the county seat of Culberson County and is located approximately 120 miles southeast of El Paso, Texas. The 1990 United States Census (Census) estimated the total population for the city of Van Horn, Texas at 3,076 and a combined population for the three counties comprising the bank's assessment area at 8,268. According to President Hensley, a substantial majority of the bank's lending is concentrated in Van Horn, Texas, as each of the three banks located in the bank's assessment area dominate the respective towns in which they are located. None generate significant loan volume in the sparsely-populated, rural, mountainous regions surrounding the three towns.

The 1990 Census median family income (MFI) for Block Numbering Area (BNA) 9502 encompassing the city of Van Horn, Texas, and for BNAs 9501 and 9502 comprising Hudspeth County were \$17,783, \$15,531, and \$18,224, respectively, all of which were considered moderate-income BNAs. BNA 9501 encompassing all of Jeff Davis County had a MFI of \$21,589 and was considered to be a middle-income BNA. BNA 9501 comprising the remainder of Culberson County had a MFI of \$35,750 due to high ranching incomes and was considered to be an upper-income BNA. Approximately 52.3% of the families residing in the bank's assessment area were considered low- or moderate-income families based upon Census data. The percentages of low- and moderate-income families residing in Culberson, Hudspeth, and Jeff Davis Counties were 51.9%, 59.3%, and 43.5%, respectively. The Department of Housing and Urban Development (HUD) updates MFI on an annual-basis and reports the 1995 Texas nonmetropolitan MFI at \$28,700. For CRA purposes, borrower income information for nonmetropolitan areas, such as these three counties, are based upon the latter figure.

~~Two community contacts interviewed during the examination indicated that the local economy was stable, but was experiencing little or no growth in terms of population,~~

employment, and commercial, retail, and residential development due to a lack of diversification. The local economy is too concentrated in the local government/school system, tourism, and agricultural sectors and needs to attract new, diversified employers such as light and heavy manufacturing companies. While both community contacts felt that the bank was actively involved in the community, had sufficient lending capacity and capability, and was aggressively marketing a comprehensive selection of loan products, they indicated that the city has suffered from affordable housing and rental property shortages for sometime. This has dampened speculative commercial and residential building, as well as the relocation of potential new employers. Also, the relatively stagnant economy has discouraged home owners from applying for home improvement loans, which appear to be needed due to the 30-40 average age of the local housing stock and the substandard condition of many owner-occupied homes.

In 1996, the Van Horn city council reversed priorities and placed improvement of the city's infrastructure above affordable housing. The city plans on first obtaining a total of \$650 thousand in Community Development Block Grants to improve the city's water and sewer systems and streets by the end of 1997. The city will then apply for a \$250 thousand HUD housing rehabilitation grant to improve the substandard, owner-occupied housing situation. Local government officials indicated that improving the city's infrastructure and substandard housing situation will help attract new employers to the community and diversify the local economy, which should lead to increased speculative building and an improved affordable housing and rental property market.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

The bank's quarterly average loan-to-deposit (LTD) ratio is outstanding in light of its performance context, which includes the institution's capacity to lend, the capacity of other similarly-situated institutions to lend, existing demographic and economic factors, and the lending opportunities available in the institution's assessment area.

VHSB's quarterly average LTD ratio since the last examination equaled 64.2%. As of June 30, 1996, the bank's net loans represented 70.7% of total deposits, which exceeded the bank's national peer group level of 61.4%. VHSB's preliminary September 30, 1996, LTD ratio equaled 78.6%. VHSB's above peer and increasing LTD ratio since the last examination can be mainly attributed to the bank's increased participation in the SBA loan market, in addition to increased consumer loan demand. VHSB's quarterly average LTD ratio was compared with the other two banks operating inside the bank's assessment area: one was located in Fort Davis, Texas, in Jeff Davis County and the other was located in Sierra Blanca, Texas, in Hudspeth County. Both were considered to be similarly-situated institutions based upon their respective asset sizes, loan portfolio mixes, quarterly average LTD ratios, and other factors. As of June 30, 1996, these two similarly-situated institutions had quarterly average LTD ratios of 56.5% and 53.0%, respectively.

LENDING IN ASSESSMENT AREA

The bank exceeded the standards for satisfactory performance, as a substantial majority of the 105 loans sampled were made inside the bank's assessment area. Overall, 95% of the loans sampled on both a number and dollar-basis were made inside the bank's assessment area. An analysis of each specific loan product category reached a similar conclusion. Of the 76 motor vehicle loans sampled, 95% on a number-basis and 85% on a dollar-basis were made inside the bank's assessment area. Of the 29 commercial loans sampled, 97% on both a number and dollar-basis were made inside the bank's assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank's distribution of loans in its assessment area by gross revenue, borrower income, and dollar amount of loans exceeded the standards for satisfactory performance and were considered outstanding. Examiner analysis included a review of 76 motor vehicle loans extended during the six-month period from February 1, 1996, through July 31, 1996, and 29 commercial loans extended since the last examination as of October 17, 1994, through July 31, 1996.

As the following chart illustrates, the bank's distribution of commercial loans by business revenue met the standards for satisfactory performance. Of the 17 loans with revenue data, 58% were made to companies with gross revenues of \$1 million or less and 29% were extended to business operations with gross revenues under \$250 thousand.

COMMERCIAL LOAN SAMPLE WITHIN ASSESSMENT AREA BY INCOME LEVEL *				
NUMBER OF LOANS		GROSS REVENUES (GR)	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
5	29	GR under 250M	\$ 150	9
5	29	251M to 1MM	1,254	76
7	42	Over 1MM	239	15
17	100%	Totals	\$1,643	100%

* Totals and percentages excluded 4 loans for which income data was not available and 7 loans upon which the bank relied upon borrower income information.

As detailed in the next chart, approximately 79% of the commercial loans reviewed were originated for amounts of less than \$50,000, which clearly demonstrates the bank's willingness and outstanding efforts to meet the community's credit needs, in particular for small business loans.

COMMERCIAL LOAN SAMPLE WITHIN ASSESSMENT AREA ANALYSIS BY DOLLAR AMOUNT		
DOLLAR LEVEL CATEGORY	NUMBER	PERCENTAGE OF TOTAL
\$0 - \$25,000	16	57
\$25,001 - \$50,000	6	22
\$50,001- \$100,000	4	14
\$100,001 OR ABOVE	2	7
TOTALS	28	100%

The motor vehicle consumer loan analysis consisted of analyzing borrower income as a percentage of the 1995 Texas Nonmetropolitan MFI. A breakdown by income range for each income category is detailed below:

1995 TEXAS NONMETROPOLITAN MEDIAN FAMILY INCOME: \$28,700		
INCOME CATEGORY	INCOME RANGE AS A PERCENT OF MEDIAN	UPPER LIMIT OF RANGE
LOW-INCOME	0 - 50%	\$14,350
MODERATE-INCOME	51 - 80%	\$22,960
MIDDLE-INCOME	81 - 120%	\$34,440
UPPER-INCOME	121% and over	over \$34,440

Analysis of the motor vehicle and unsecured loan distribution among the various income levels revealed an outstanding distribution of loans, as shown on the following table:

MOTOR VEHICLE LOAN SAMPLE WITHIN ASSESSMENT AREA BY INCOME LEVEL *				
NUMBER OF LOANS		INCOME CATEGORY	DOLLAR AMOUNT	
NUMBER OF LOANS BY INCOME OF APPLICANT	PERCENT OF TOTAL LOANS		NUMBER OF LOANS BY INCOME OF APPLICANT (THOUSANDS)	PERCENT OF TOTAL LOANS
22	48	Low-income	\$ 55	25
12	26	Mod-income	84	39
5	11	Mid-income	27	13
7	15	Upp-income	50	23
46	100%	Totals	\$216	100%

* Totals and percentages excluded 26 motor vehicle loans for which income data was not available.

Analysis of the 46 motor vehicle loans made inside the assessment area found that 74% on a number-basis and 64% on a dollar-basis were made to low- or moderate-income borrowers. Both of these percentages exceeded the 52.3% combined Census figure for low- and moderate-income families residing in the bank's assessment area, as well as the respective individual percentages of low- and moderate-income families residing in Culberson, Hudspeth, and Jeff Davis Counties. Low- and moderate-income families represented 28.7% and 23.6%, respectively, of the assessment area's total population based upon Census data.

In order to further support the borrower income distribution analysis due to the lack of borrower income information on 26 or 36% of the 72 motor vehicle loans made inside the bank's assessment area, an analysis by dollar amount of the motor vehicle loan sample was performed. As shown in the following chart, 75% of the motor vehicle loans were originated for amounts of less than \$5,000 and 57% were made for amounts of less than \$2,500:

MOTOR VEHICLE LOAN SAMPLE WITHIN ASSESSMENT AREA ANALYSIS BY DOLLAR AMOUNT *		
DOLLAR LEVEL CATEGORY	NUMBER	PERCENTAGE OF TOTAL
\$0 - \$2,500	41	57
\$2,501 - \$5,000	13	18
\$5,001- \$10,000	10	14
\$10,001 - \$20,000	5	7
\$20,001 OR ABOVE	3	4
TOTALS	72	100%

Beyond that, a review of the 72 motor vehicle loans made inside the bank's assessment area found that an exceptional percentage, 83% were secured by cars or trucks aged over six years or older and the average age of the collateral pledged was 9.5 years. Therefore, it is evident that the bank is making considerable efforts to make motor vehicle loans to all members of the community, including low- and moderate-income borrowers, based upon the significant number of small dollar loans and loans secured by collateral aged 6 years or older.

GEOGRAPHIC DISTRIBUTION OF LOANS

Overall, the bank's geographic lending distribution was considered reasonable and met the standards for satisfactory performance. Although 95 of the 100 motor vehicle and commercial loans inside the bank's assessment area were made in moderate-income level BNAs, further analysis revealed that all but two of these 95 loans were made in the moderate-income BNA 9502 encompassing the city of Van Horn, Texas. As noted earlier, a substantial majority of VHSB's commercial and consumer lending is centered in the city of Van Horn, Texas, and a significantly higher percentage of loans in moderate-income BNAs would be expected. The other two loans made in a moderate-income BNAs were made in BNA 9501 in the city of Sierra Blanca, Texas, which is located in Hudspeth County. The remaining 5 loans were made in the upper-income BNA 9501 comprising the remainder of Culberson County. No loans were made in the moderate-income BNA 9502 encompassing the remainder of Hudspeth County or in the middle-income BNA 9501 comprising Jeff Davis County.

RESPONSE TO COMPLAINTS

The institution has not received any written complaints about its CRA performance since the last examination.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS (ECOA, FHA, OR HMDA)

No violations involving illegal discrimination or discouragement were noted during the examination.